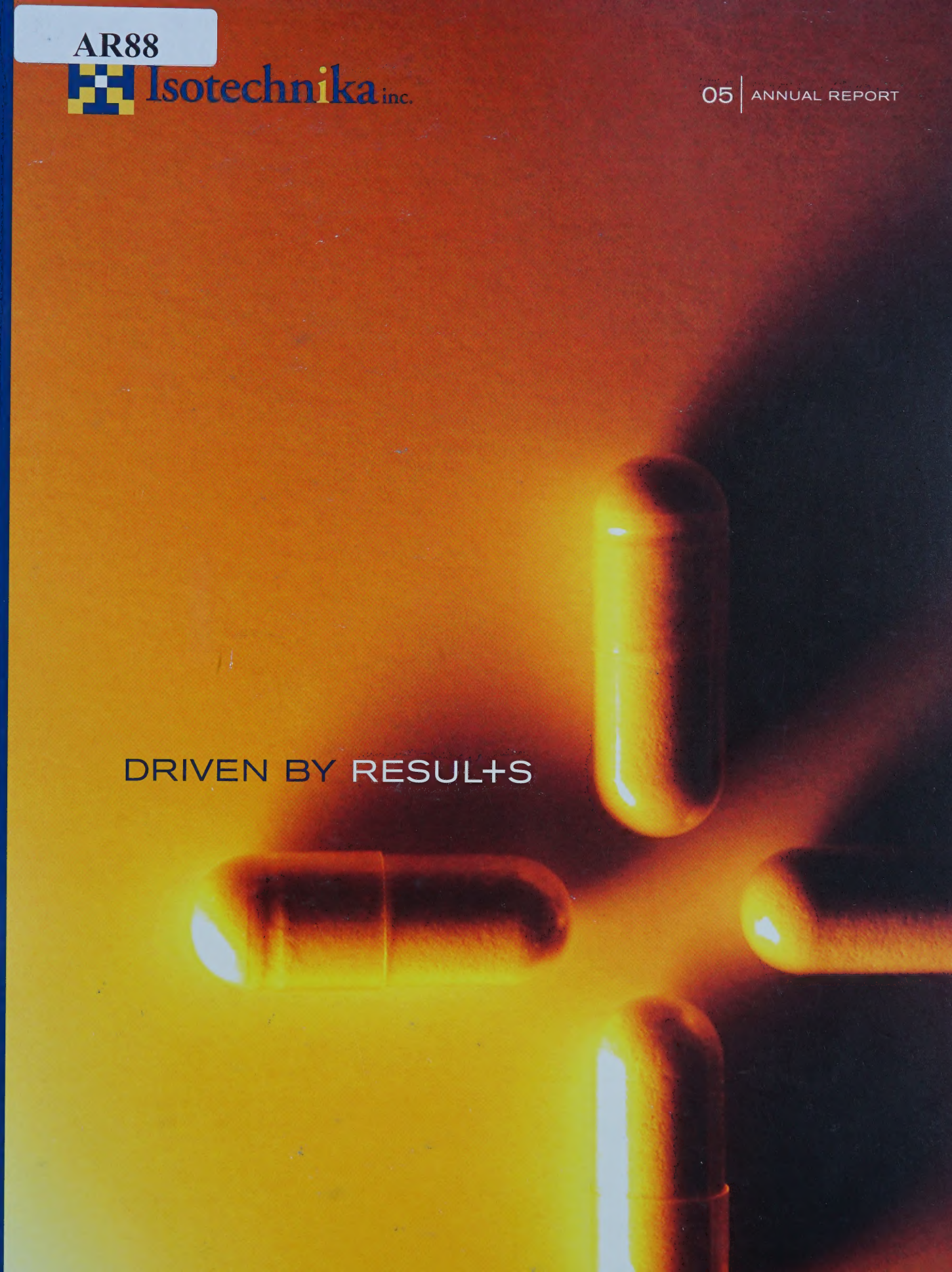
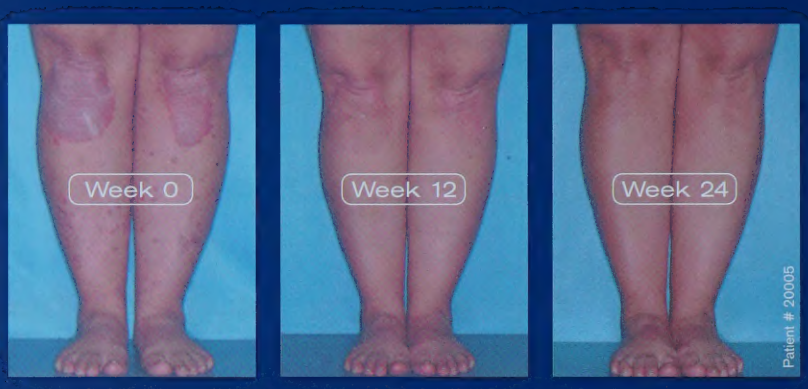
Isotechnika inc.

05 | ANNUAL REPORT



DRIVEN BY RESULTS

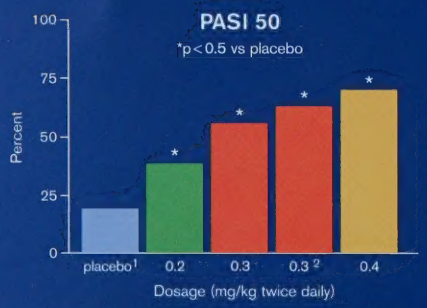


ACHIEVING OUR ENDPOINTS

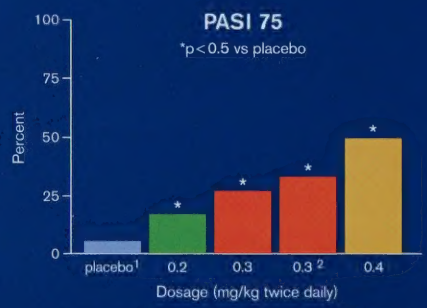
HIGHLIGHTS OF PHASE III SPIRIT TRIAL - 24 WEEK DATA

"The results with ISA247 indicate that efficacy equals that of the best treatments presently available for severe psoriasis and positions ISA247 as a possible first line therapy for severe psoriasis while providing a side-effect profile not different from placebo. Our optimism regarding the efficacy of ISA247 and lack of renal or any other toxicity seen after 24 weeks of therapy is confirmed in the extension study data to date."

Dr. Gilles Lauzon
Director, Division of Dermatology
University of Alberta



[1] Patients only received placebo for 12 weeks; 18% achieved PASI 50
[2] Placebo patients that crossed over to 0.3 mg/kg twice daily at 12 weeks



[1] Patients only received placebo for 12 weeks; 4% achieved PASI 75
[2] Placebo patients that crossed over to 0.3 mg/kg twice daily at 12 weeks

PERCENTAGE CHANGE IN PASI SCORES

The Psoriasis Area and Severity Index (PASI) is a scale used by the physician to evaluate the severity of the psoriasis and the amount of body surface area involved. Reduction in this score represents a clinical improvement demonstrating less disease present. A PASI 75 is a 75% reduction in PASI score, while a PASI 50 is a 50% reduction in PASI score. If a patient reaches a PASI 75 the majority of their lesions will have cleared. A PASI 50 indicates that the psoriasis lesions may still be present, but will be smaller with less itching and scaling. Generally speaking these types of PASI scores are associated with patient and physician satisfaction. As the dose of ISA247 increased, the patients' PASI scores continued to improve. Approximately 50% of the patients achieved a PASI 75 and approximately 70% of patients achieved a PASI 50 at the highest dose tested. All doses resulted in a statistically significant increase in PASI 75 score as compared to placebo.

ALL CLINICAL TRIAL PHOTOS SHOWN HERE ARE UNTOUCHED. THESE PHOTOS REPRESENT THE RESULTS OF ONE PATIENT ONLY AND SHOULD NOT BE CONSIDERED TO REPRESENT THE RESULTS OF ALL PATIENTS ENROLLED IN THE CLINICAL TRIAL.

Over the past year we have driven the Company forward on a number of fronts. The clinical development of our lead immunosuppressive drug, ISA247, was advanced in both psoriasis and transplantation.

The Phase III psoriasis trial was completed in approximately 11 months. The trial which commenced in December, 2004 was conducted at 32 trial sites across Canada. We achieved our recruitment goal, enrolling 453 patients in 8 weeks. Despite the advances of newer drugs to treat psoriasis, there remains a significant need for drugs that are both safe and efficacious. The rapid recruitment of patients in our trial may indicate that both the patients and the physicians recognize the need for additional drugs.

Upon completion of our 6 month trial, ISA247 met all targeted efficacy and safety endpoints. One of the more important findings of our trial showed that kidney function remained stable at efficacious doses. This safety finding is important, as other drugs that belong to the same class of compounds called 'calcineurin inhibitors' have a significant negative impact on kidney function. Since discovery of ISA247, our goal has been to develop a drug with superior safety and efficacy compared to other commercially available medications treating psoriasis. We firmly believe that we are well on our way to realizing our goal.

Patients that completed this 24 week Canadian Phase III psoriasis trial were given the opportunity to continue therapy for an additional 36 weeks. The goal of this currently ongoing extension trial is to provide continued therapeutic benefit to psoriasis patients while gathering long term safety and efficacy data. Of the patients who completed the Phase III trial, 90% chose to continue receiving ISA247 treatment. This participation rate is an indicator of a high degree of satisfaction with ISA247 experienced by both the patients and the physicians. Data from the extension trial after a total of 9 months of therapy indicated continuing efficacy with no clinically significant reduction in kidney function. These results continue to support our expectations of long term safety combined with efficacy. The final results of the extension trial are expected in the second half of 2006. Initiation of Phase III psoriasis trials of ISA247 in Europe and the U.S. are anticipated to commence later in 2006.

We are also advancing ISA247 for the prevention of organ rejection after kidney transplantation. Permission was granted in the first half of 2005 from both the Canadian and the U.S. health regulatory agencies to proceed with a Phase IIb kidney transplant trial. The trial has been designed to include 332 *de novo* (newly transplanted) kidney patients from 34 clinical trial sites across North America. The efficacy and safety of three different targeted blood concentrations of ISA247 will be compared to a tacrolimus (another drug that belongs to the same class of calcineurin inhibitors) control arm. All patients will receive oral treatment of either drug (ISA247 or tacrolimus) for 6 months in combination with other standard drugs used after transplantation. The goal of this transplant trial is to find the most appropriate dose of ISA247 resulting in efficacy (lack of organ rejection) while minimizing side effects associated with other calcineurin inhibitors (cyclosporine and tacrolimus). The first transplant patient was enrolled in this trial in January, 2006. The anticipated completion of the trial is expected in mid-2007.

Our financial position was strengthened this past July upon completion of a bought deal financing to enable us to pursue our ongoing clinical trial programs. This cross-border financing, which was led by GMP Securities Ltd., was completed for net proceeds of approximately $18.4 million.

We continue to move forward with the development of our second immunosuppressive drug, TAFA93, a novel pro-drug of rapamycin. TAFA93 has potent anti-proliferative effects and can therefore be used in a number of indications.

In the fall of 2005, we signed an exclusive worldwide licensing agreement with Atrium Medical Corporation ("Atrium") for the use of TAFA93 and ISA247 with drug eluting medical devices. These devices deliver drug locally to treat

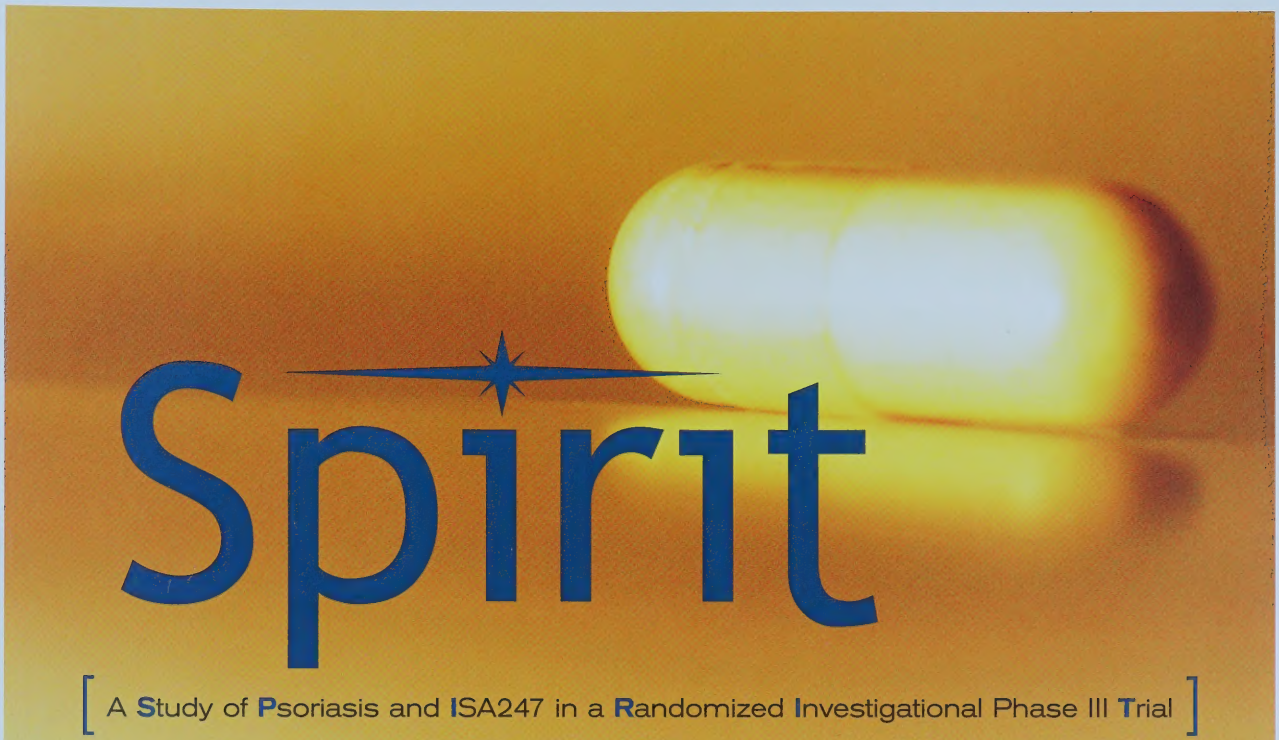
cardiovascular disorders and soft tissue repair (e.g., stents and surgical meshes respectively). As such Atrium's implantable product line utilizes the non-systemic applications of these two drugs. For this collaboration, we received an upfront licensing fee of $3 million US and will receive further milestone and royalty payments once the drug eluting devices are commercialized. A portion of the upfront fee is being used to offset the cost of a Phase Ib trial for TAFA93 which is currently underway. It has been our strategy to maximize the unique potential of our immunosuppressive drugs in a variety of indications, both for systemic and non-systemic applications. The signing of the agreement with Atrium helps us to realize some of these additional applications.

Certain changes to our management structure and Board of Directors were undertaken to continue with the advancement of our Company in the context of the broader capital markets while contemplating the possibility of listing our shares for trading outside Canada. The listing requirements to enter these markets and the evolving capital market expectations for enhanced Board independence led our team to review and change the Company's structure. At our November Board of Directors meeting, Dr. Robert Foster relinquished the role of Chairman and Chief Executive Officer that he had held for over 12 years and adopted a new role as Executive Chairman. After approximately 10 years as a senior executive with the Company, Dr. Randall Yatscoff assumed the role of President and Chief Executive Officer and relinquished his role as Chief Operating Officer. Dr. Launa Aspeslet who has been with the Company for the past 9 years, most recently as a Senior Vice-President, was promoted to Chief Operating Officer. In addition, the composition of the Board of Directors was changed to reflect the need to create a more truly independent Board. As such, Dr. Yatscoff resigned his position on the Board leaving Dr. Foster as the single representative of the executive group. Subsequent to the resignation of four other Board members, two new Board members have been appointed. They are Ms. Mary Ritchie and Mr. Franklin Berger. Both of these individuals bring additional global financial acumen and capital market expertise to our Board. We view these corporate governance changes as very positive and we believe these changes should greatly facilitate the advancement of the Company.

The management team and staff are driven by their desire and enthusiasm to see our drugs benefit patients and our products commercialized. We would like to thank all our staff team members and our shareholders for their ongoing support throughout this past year. We anticipate that the upcoming year will be one of significant developments scientifically, clinically and corporately. We look forward to sharing these events with you in 2006.

Robert T. Foster, Ph.D.
Executive Chairman & Founder

Randall W. Yatscoff, Ph.D., FCACB
President & Chief Executive Officer



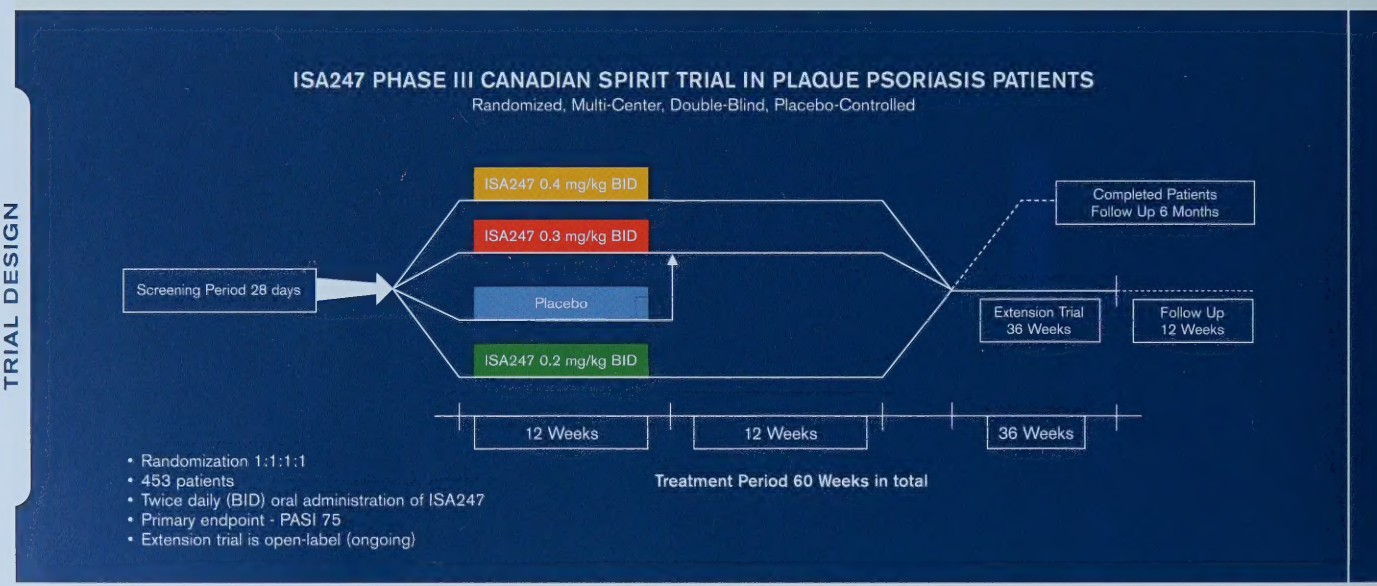
[A **S**tudy of **P**soriasis and **I**SA247 in a **R**andomized **I**nvestigational Phase III **T**rial]

The SPIRIT trial enrolled its first patient on December 2, 2004. The overwhelming number of requests from physicians and their patients to enroll in the trial was impressive. This likely speaks to the need to find safer and more efficacious drug therapies for people suffering from moderate to severe psoriasis. The original trial design included 400 patients; however, due to the rapid rate of enrollment an additional 53 patients were enrolled in the trial. Patient recruitment was completed on February 10, 2005.

The following pages summarize the data generated in the 24 week SPIRIT trial, provide an overview of the extension trial and allow actual patients the opportunity to share their experiences while being treated with ISA247. We are encouraged by these results and we are confident that ISA247 will continue to exhibit an improved safety and efficacy profile in future trials when compared with other commercially available medications.

The SPIRIT trial was conducted at 32 clinical trial sites across Canada. Patients were randomized to one of the four treatment arms; high dose (0.4 mg/kg twice daily), mid dose (0.3 mg/kg twice daily), low dose (0.2 mg/kg twice daily) and placebo. Subsequent to the first 12 weeks, those patients who received placebo were administered the mid dose for the remaining 12 weeks of the trial. The primary objective of this trial was to determine the proportion of patients with moderate to severe psoriasis achieving a PASI 75 at 12 weeks.

TRIAL DESIGN



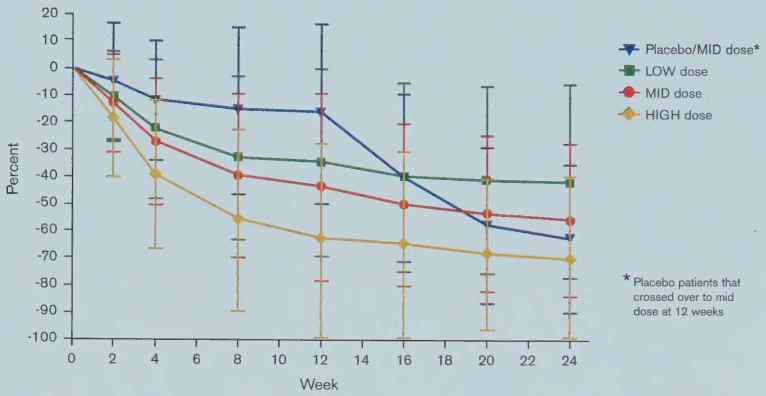
Of the 453 patients enrolled in the trial, 25% of patients in the mid dose and 47% of patients in the high dose achieved a PASI 75 score at 12 weeks. This improvement was maintained over 24 weeks (26% and 49%, respectively). There were no clinically significant changes in kidney function for any of the patient groups. Mean blood pressure and lipids remained stable over the 24 weeks of the trial.

Improvements in symptom severity, and daily impact of psoriasis on patients treated were statistically significant with the drug being well tolerated. Overall, this trial demonstrated that ISA247 was safe and effective in the management of plaque psoriasis.

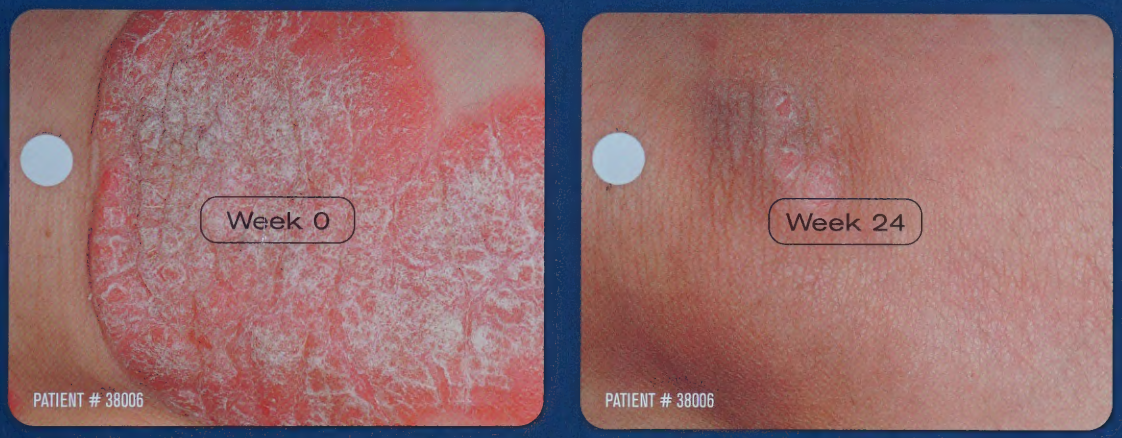
EFFICACY

PERCENTAGE CHANGE IN PASI FROM BASELINE

This slide demonstrates the time frame for the reduction in PASI scores. Patients could expect a significant improvement within as little as 2 weeks of therapy.



TARGET SITE

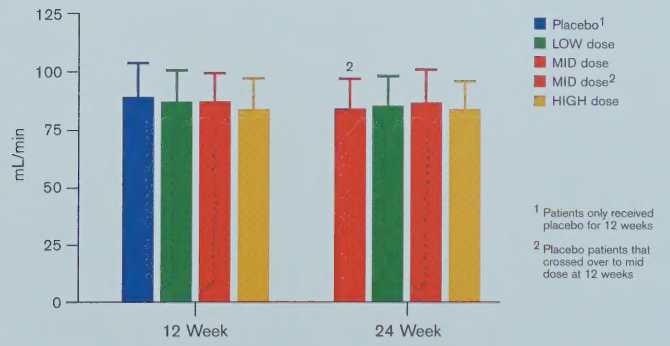


ALL CLINICAL TRIAL PHOTOS SHOWN HERE ARE UNTOUCHED. THESE PHOTOS REPRESENT THE RESULTS OF THIS ONE PATIENT.

TOXICITY

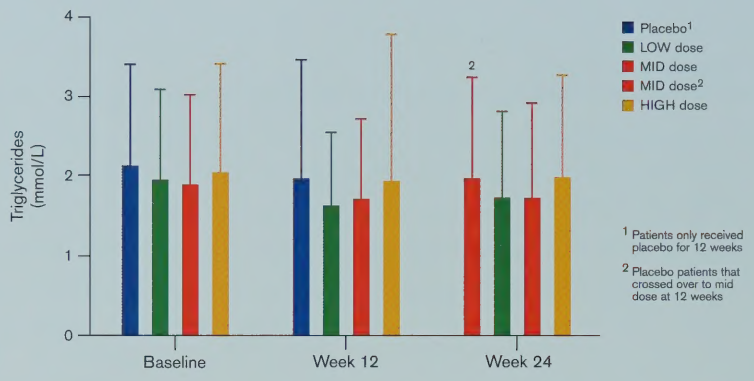
GLOMERULAR FILTRATION RATES

Glomerular filtration rate (GFR) measures the rate of blood filtration through the kidneys. A decrease in the rate may indicate kidney damage. ISA247 at doses shown here demonstrate no change to kidney function. There were no clinically significant differences among dosing groups.



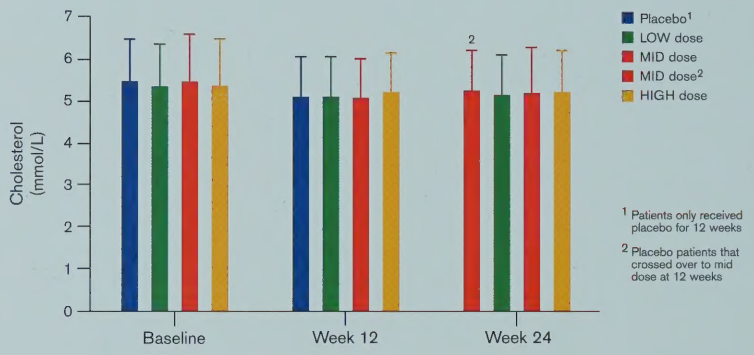
TRIGLYCERIDE LEVELS BY WEEK AND DOSE GROUP

Elevations in triglycerides have been linked to heart disease and are a common effect of cyclosporine therapy. This slide demonstrates that in all groups, ISA247 did not elevate the average triglyceride levels of patients in the trial.



CHOLESTEROL LEVELS BY WEEK AND DOSE GROUP

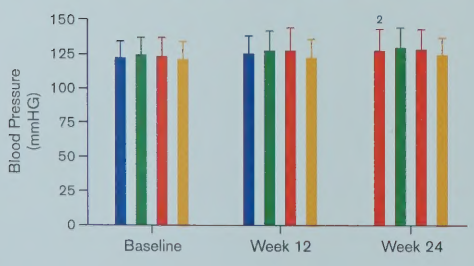
Elevations in total cholesterol have been linked to heart disease and are a common effect of cyclosporine therapy. This slide demonstrates that in all groups, ISA247 did not elevate the average cholesterol levels of patients in the trial.



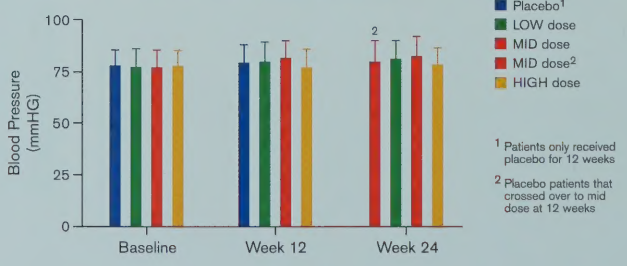
BLOOD PRESSURE MEASUREMENTS BY WEEK AND DOSE GROUP

The utility of cyclosporine therapy has been limited as its use may lead to increases in systolic and diastolic blood pressures. This may necessitate the addition of antihypertensive drugs or discontinuation of cyclosporine therapy. These slides demonstrate that mean systolic and diastolic blood pressures were not elevated by ISA247 doses tested in these patients.

SYSTOLIC BLOOD PRESSURE



DIASTOLIC BLOOD PRESSURE



Patients completing the 24 week Canadian Phase III SPIRIT trial were given the opportunity to continue therapy for an additional 36 weeks or to discontinue therapy. Ninety percent of patients who completed the trial chose to enroll in the extension trial. Those patients in the low and high dose groups who chose to enroll in the extension trial were moved into the mid dose group. Patients who commenced the SPIRIT trial in the mid dose group remained in that dose group. The goal of the extension trial is to demonstrate continued therapeutic benefit to psoriasis patients while gathering long term safety and efficacy data.

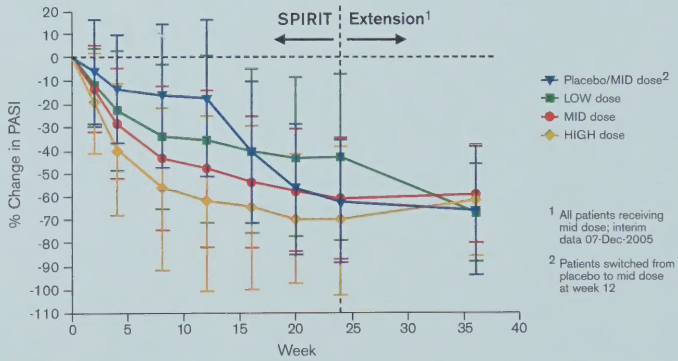
In December, 2005 interim data was reported on 254 patients who completed 12 weeks of the extension trial for a total of 36 weeks of treatment. The data generated up to that point indicated there were no clinically or statistically significant changes in serum creatinine or glomerular filtration rates over the duration of the trial period.

As anticipated, the improvement in PASI scores remained fairly stable for those patients previously in the mid dose group of the SPIRIT trial. Patients previously in the low dose group experienced an improvement in mean percent change in PASI scores from 42% to 66% after 12 weeks at the mid dose. Patients previously in the high dose group experienced a slight change in PASI scores from 70% to 61%.

Final extension trial data is expected in the second half of 2006.

PERCENTAGE CHANGE IN PASI FROM BASELINE

This slide demonstrates the effect of continuing a mid dose of ISA247 twice daily from week 24 to week 36.



GLOMERULAR FILTRATION RATES

This slide demonstrates the effect of ISA247 on kidney function. Kidney function remained stable among all dosing groups.

NEAL GLASS

I was diagnosed with psoriasis when I was 23 years old. I didn't realize that it would be a whole career and lifetime of the stuff. Since I was diagnosed with psoriasis I have tried things like cortizone ointments that would work temporarily and PUVA light therapy.

Sometimes I feel like a walking pharmacologist because I've gone through so many types of creams and ointments that I exhausted the dictionary of what can be taken for psoriasis. In my opinion, the treatments currently on the market are all temporary measures.

I enrolled in the ISA247 trial out of desperation; I saw an ad in the paper and on the television and phoned right away. I didn't realize how many people actually have psoriasis until I saw this room full of people. At the beginning of the trial I wasn't even sure it was going to work but two weeks later my skin started clearing. I started participating in activities where some of my skin would be visible. My quality of life sky rocketed, absolutely sky rocketed. I am very grateful, so grateful for that.

VIRGINIA KENNETH

I was born with psoriasis and as I went through high school the condition got worse. It got to the point where I began covering up; I didn't want to deal with the negativity from others. Later, when I got pregnant with my daughter Simone, the psoriasis was the worst it had ever been. It was hard trying to keep up with a child who was starting to move more and more, day by day and having a condition that continued to get worse day by day.

Over the years, I tried different lotions and creams; they controlled my psoriasis but didn't necessarily make it go away. Last year I attended an information session for an investigational drug, ISA247, and I decided to participate in the trial since my previous treatments were mildly successful at best.

For the first half of the trial I received the placebo arm and I noticed that my psoriasis was actually worsening but once I was switched over to active treatment, I was shocked at how fast it did start to clear up. I noticed a difference within the first two weeks of receiving ISA247. I never thought that after six months of being on the drug that I would be able to do everything that I ever wanted to do with my daughter. I feel better about myself, I feel better about how much I can do with her. I feel like I'm a better mom. I've always had low self esteem and I think with the psoriasis getting better I started dealing with everything else that troubled me and I think Isotechnika gave me the strength to deal with the rest of my life.

Promise

A **P**hase IIb **R**andomized, **O**pen-Label, **M**ulti-Center, Concentration-Controlled, Safety Study Of **ISA**247 And Tacrolimus (Prograf) In ***De*** *Novo* Renal Transplant Patients

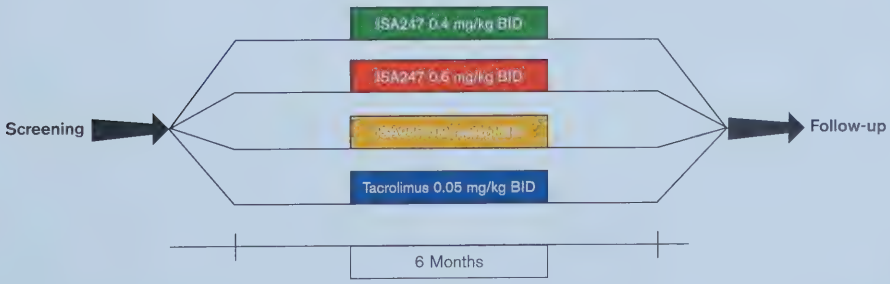
The PROMISE trial enrolled its first patient on January 4, 2006.

The trial is currently being performed at 34 clinical trial sites across North America, including 29 clinical trial sites in the United States and 5 clinical trial sites in Canada. A total of 332 *de novo* (newly transplanted) kidney transplant patients are expected to be enrolled in this trial. Patients will be placed into one of four separate treatment groups; three different dose groups of ISA247 (0.4 mg/kg, 0.6 mg/kg, and 0.8 mg/kg twice daily) compared with the fourth group, a tacrolimus (0.05 mg/kg twice daily) control arm. Patients in all four treatment groups will have their doses adjusted in order to achieve pre-defined blood levels of either ISA247 or tacrolimus. All patients will receive oral treatment of drug (ISA247 or tacrolimus) over a 6 month period in combination with other standard immunosuppressive therapies used following transplantation.

The primary endpoint of the trial is defined as non-inferiority in biopsy proven acute rejection (BPAR) episodes in patients receiving ISA247 for 6 months as compared to those receiving tacrolimus. Additionally, kidney function and other laboratory parameters such as hypertension, hyperlipidemia and new onset diabetes mellitus will be monitored for the duration of the trial. The overall goal of the trial is to find the most appropriate dose that will result in efficacy (lack of rejection) with minimal side effects often associated with the use of other calcineurin inhibitors (cyclosporine and tacrolimus).

NORTH AMERICAN ISA247 PHASE IIb KIDNEY TRANSPLANT TRIAL DESIGN

Randomized, Multi-Center, Tacrolimus-Controlled



- 332 *de novo* (newly transplanted) kidney patients
- Twice daily (BID) oral administration of ISA247 or tacrolimus
- Primary endpoint - non-inferiority in Biopsy Proven Acute Rejection (BPAR) at 6 months in patients receiving ISA247 as compared to the tacrolimus control


We recognize that our future can be enhanced
through partnerships with other
pharma and biotechnology companies.

In 2005, the Company was able to further capitalize on its product pipeline. On September 30, 2005 the Company entered into an exclusive worldwide licensing agreement with Atrium Medical Corporation for the use of TAFA93 and ISA247 specifically with localized delivery drug eluting devices for the treatment of cardiovascular, target vessel and tissue disorders.

Under the terms of the agreement with Atrium

- Isotechnika received an upfront licensing fee of $3 million US;
- Atrium pays additional milestone and royalty payments to Isotechnika upon approval of drug eluting device products which incorporate TAFA93, ISA247 or a combination of both drugs;
- Isotechnika is required to complete a Phase Ib trial for TAFA93. This trial commenced in the first quarter of 2006;
- Isotechnika is required to manufacture and supply both drugs for use in clinical trials and post commercialization on a cost plus basis.

The Company has a dedicated business development team that utilizes management and employee expertise and is complemented with external consultants as appropriate.

In addition to furthering the clinical development of ISA247 and TAFA93, the goal of the Company is to capitalize on both in-licensing and out-licensing opportunities, while focusing on immunomodulation as its core expertise.

The Company is in ongoing discussions with potential global partners to explore licensing opportunities to complement its internally developed product pipeline.

2006 PRESENTATIONS

March 4, 2006
Canadian Society of Transplantation Annual Scientific Meeting
Mont-Tremblant, Quebec, Canada

March 5, 2006
American Academy of Dermatology
San Francisco, California, USA

October 4-6, 2006
Bio Contact
Quebec City, Quebec, Canada

2005 PRESENTATIONS

February 23, 2005
BioCEO 2005
New York, New York, USA

April 23, 2005
9th International Congress of Therapeutic Drug Monitoring and Clinical Toxicology
Louisville, Kentucky, USA

May 5, 2005
Rodman and Renshaw 2nd Annual Global Healthcare Conference
Paris, France

May 17, 2005
Bio Finance 2005
Toronto, Ontario, Canada

June 20, 2005
BIO2005
Philadelphia, Pennsylvania, USA

June 30, 2005
The Canadian Dermatology Annual Conference
Banff, Alberta, Canada

October 9, 2005
Bio Partnering Europe
London, England

October 18, 2005
Bio Investor Conference
San Francisco, California, USA

October 19, 2005
Bio Science Economy Conference
Geneva, Switzerland

November 7, 2005
Rodman and Renshaw Techvest 7th Annual Healthcare Conference
New York, New York, USA

November 8, 2005
CIBC 16th Annual Healthcare Conference
New York, New York, USA

November 10, 2005
Isotechnika Analyst and Investor Research and Development Day
New York, New York, USA

CORPORATE INFORMATION

BOARD OF DIRECTORS

Robert Foster Ph.D.
Executive Chairman
Director

Franklin Berger CFA
Director [2,3]

Mary Ritchie FCA
Director [1,2,3]

Donald Schurman B.Comm., MHSA, CHE
Director [1,2,3]

Douglas Walker B.Comm.
Director [1,2,3]

SCIENTIFIC ADVISORY BOARD

Philip Belitsky M.D., FRCS(C)
Uwe Christians M.D., Ph.D
Anthony Jevnikar M.Sc., M.D., FRCP(C)
Arvind Koshal MB, BSc, MS, FRCS(C)
Walter Maksymowych BSc, MBChB, LmCC, MRCP, FRCP

CLINICAL ADVISORY BOARD

Robert Bissonnette M.D., M.Sc., FRCP(C)
Richard Langley M.D., FRCP(C)
Gilles Lauzon M.D., Ph.D., FRCP(C)
Kim Papp M.D., Ph.D., FRCP(C)
Neil Shear M.D., FRCP(C)

TRANSPLANT ADVISORY BOARD

Daniel Abramowicz M.D., Ph.D
Philip Belitsky M.D., FRCS(C)
Anthony Jevnikar M.Sc., M.D., FRCP(C)
Arthur Matas M.D.
Mark Pescovitz M.D.
Flavio Vincenti M.D.

DIAGNOSTIC ADVISORY BOARD

Mayer B. Davidson M.D.
Richard Lewanczuk M.D., Ph.D., FRCP(C)
Gerald M. Reaven M.D.

---

1 Audit Committee
2 Compensation Committee
3 Corporate Governance Committee

CORPORATE OFFICERS

Robert Foster Ph.D.
Executive Chairman
Director

Randall Yatscoff Ph.D., FCACB
President & Chief Executive Officer

Launa Aspeslet Ph.D., RAC
Chief Operating Officer

Dennis Bourgeault C.A.
Chief Financial Officer

MEDICAL DIRECTOR

Norman Kneteman M.D., FRCS(C)

HEAD OFFICE

2100 College Plaza
8215 - 112 Street
Edmonton, Alberta
Canada T6G 2C8
Tel: 780 487 1600
Toll Free: 888 487 9944
Fax: 780 484 4105

U.S. OFFICE

Suite 100
17301 N. Perimeter Drive
Scottsdale, Arizona
USA 85255-6875
Tel: 480 505 0540
Fax: 480 505 0545

Web Site

www.isotechnika.com

AUDITORS

PricewaterhouseCoopers LLP
1501 TD Tower
10088 - 102 Avenue
Edmonton, Alberta
Canada T5J 3N5

LEGAL COUNSEL

Bryan & Company
Barrister & Solicitors
2600 Manulife Place
10180 - 101 Street
Edmonton, Alberta
Canada T5J 3Y2

INVESTOR RELATIONS

Stephanie Gillis-Paulgaard
Director, Corporate Communications
Tel: 780 487 1600 ext 243
Fax: 780 484 4105
sgillis-paulgaard@isotechnika.com

EXCHANGE LISTING

Toronto Stock Exchange
Trading Symbol: ISA

SHARE REGISTRAR AND TRANSFER AGENT

Computershare
Trust Company of Canada
Suite 530, 8th Avenue SW
Calgary, Alberta
Canada T2P 3S8

ANNUAL GENERAL MEETING

Tuesday, May 9th, 2006
10:00 a.m. EST
Fairmont Queen Elizabeth Hotel
Montreal, Quebec, Canada

HEAD OFFICE 2100 College Plaza, 8215-112 Street, Edmonton, Alberta, Canada T6G 2C8
Telephone 780 487 1600 Toll Free 888 487 9944 Fax 780 484 4105 www.isotechnika.com

PRINTED IN CANADA